



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

August 2, 1999

H.R. 2614 **Certified Development Company Program Improvements Act of 1999**

As ordered reported by the House Committee on Small Business on July 29, 1999

H.R. 2614 would make numerous changes to two loan programs that the Small Business Administration (SBA) operates in cooperation with certified development companies (CDCs). Based on information from the SBA, CBO estimates that implementing H.R. 2614 would not have a significant impact on the federal budget. Because H.R. 2614 could affect direct spending, pay-as-you-go procedures would apply, but we estimate that any such effect would not be significant. H.R. 2614 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on state, local, or tribal governments.

CDC loans, also known as section 503 and 504 loans, provide small businesses with long-term, fixed-rate financing for the purchase of land, buildings, and equipment. Under current law, the Administrator of SBA must adjust an annual fee on 504 loans to produce an estimated subsidy rate of zero at the time loans are guaranteed. H.R. 2614 would extend the authority to collect such fees on new loans through fiscal year 2003. Under current law, both the program and its fee authority expire at the end of fiscal year 2000. If the program is reauthorized, the extension of the fee authority would maintain a zero subsidy rate. (H.R. 2614 would not, by itself, extend the program beyond 2000.) The bill would allow CDCs to litigate in place of SBA and would authorize qualified companies to liquidate loans in their portfolio that the SBA has purchased. (The bill would make permanent the pilot program that allowed CDCs to liquidate such loans.) Finally, the bill would increase the maximum amount that can be guaranteed from \$750,000 to \$1 million in most cases, and from \$1 million to \$1.3 million if the loan would satisfy specific policy goals.

If H.R. 2614 is enacted, the subsidy rates for previous cohorts of CDC loans or the administrative costs of SBA could be affected. (The former would affect direct spending.) However, it is unclear whether the average subsidy costs for SBA guarantees of existing loans would increase or decrease. The pilot program has not produced enough information to date to allow CBO to make any determination about the amount the government would recover on defaulted loans if those loans are liquidated by CDCs instead of by SBA. In

addition, it is not clear how expenses associated with liquidation would be paid. The Federal Credit Reform Act stipulates that administrative expenses cannot be paid out of the subsidy for loan programs, but expenses to foreclose, maintain, or liquidate an asset can. Many of the expenses CDCs would incur would be to foreclose, maintain, or liquidate assets. It is not clear whether SBA would have the authority to reimburse CDCs for administrative expenses, including litigation costs.

Liquidation activities under the bill might cost less than under current law, thus lowering the subsidy costs on existing loan guarantees. But if litigation costs became part of the subsidy costs, those costs could increase. On balance, CBO expects that enacting H.R. 2614 would probably not lead to a significant net change in the subsidy cost for CDC loans or in SBA's administrative costs.

The bill would not affect the zero subsidy rate for future CDC loans. H.R. 2614 would increase the maximum size of the guarantee, which could increase the default risk of the program. But added costs for defaults on future loans would be offset by fees paid by borrowers.

The CBO staff contact is Mark Hadley. This estimate was approved by Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.